

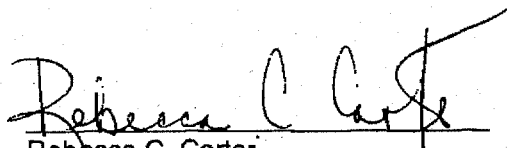
Dr. Robert K. Jaedicke, Chairman  
Mr. Ronnie C. Chan  
Dr. Wendy L. Gramm  
Dr. John Mendelsohn  
Mr. Paulo V. Ferraz Pereira  
Lord John Wakeham

NOTICE OF MEETING OF THE  
AUDIT AND COMPLIANCE COMMITTEE  
ENRON CORP.  
AUGUST 13, 2001

A meeting of the Audit and Compliance Committee of the Board of Directors of Enron Corp. will be held at the time and place and for the purpose indicated below:

DATE: August 13, 2001  
HOUR: 2:30 p.m. (C.D.T.)  
PLACE: Enron Corp.  
1400 Smith Street, 50<sup>th</sup> Floor Boardroom  
Houston, TX 77002  
SUBJECT: Such matters as may be properly brought before  
the meeting.

Dated July 16, 2001.

  
Rebecca C. Carter  
Senior Vice President Board Communications  
and Secretary

cc: Mr. Kenneth L. Lay  
Mr. Jeffrey K. Skilling  
Mr. Richard B. Buy  
Mr. Richard A. Causey  
Mr. James V. Derrick, Jr.  
Mr. Andrew S. Fastow  
Mr. Richard N. Foster

EC004397201

\\Corp\\Notices\\Audnot.doc

Dr. Robert K. Jaedicke, Chairman ✓  
Mr. Ronnie C. Chan ✓  
Dr. Wendy L. Gramm ✓  
Dr. John Mendelsohn ✓  
Mr. Paulo V. Ferraz Pereira ✓  
Lord John Wakeham ✓

**Agenda**  
**Meeting of the Audit and Compliance**  
**Committee of the**  
**Board of Directors**  
**Enron Corp.**

**August 13, 2001**  
**2:30 p.m. (C.D.T.)**  
**50<sup>th</sup> Floor Boardroom**  
**Enron Corp.**  
**Houston, Texas**

2:40

1. Approve minutes of meeting of the Audit Committee held on April 30, 2001 – Dr. Jaedicke. *Gramm Mendel*
2. Financial Reporting and Control Audit Update – Mr. Duncan, Andersen LLP, and Messrs. Causey, Kilchrist and Parsons.
3. Independent auditor communications regarding independence – Mr. Duncan, Andersen LLP.
4. Review and update on accounting for goodwill – Mr. Causey.
5. Credit and Market Risk update – Mr. Buy.
6. Other business, including executive sessions as deemed necessary – Dr. Jaedicke.  
*Wendy asked about ETT & LME situation.*
7. Adjourn to the joint session of the Audit and Compliance Committee and the Finance Committee.

Exec.

Session

2 3:25

Attendees:

Robert H. Butts ✓  
Thomas H. Bauer (AA) ✓  
Richard B. Buy ✓  
Richard A. Causey ✓  
James V. Derrick, Jr. ✓  
David B. Duncan (AA) ✓  
Richard N. Foster (McKinsey)  
D. Steven Goddard (AA) ✓  
Shawn Kilchrist ✓

~~Shawn Kilchrist~~  
Kenneth L. Lay  
~~Mark E. Koonig~~  
Theodore R. Murphy ✓  
~~Ted A. Lindholm~~  
~~David Port~~  
Jeffrey K. Skilling ✓  
~~L. Greg Whalley~~

*Rob Wallis*  
*Rex Rogers*

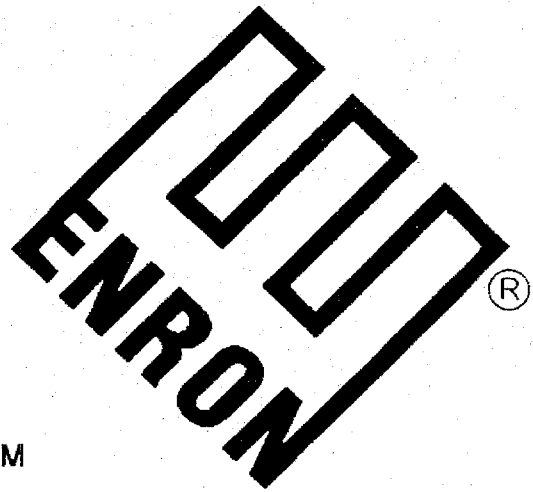
*Andrew Parsons*

EC004397202

# **AUDIT AND COMPLIANCE COMMITTEE MEETING**

**August 13, 2001**

Natural gas.  
Electricity.  
Endless possibilities.<sup>TM</sup>



**CONFIDENTIAL**

EC004397205

EC004397206

Dr. Robert K. Jaedicke, Chairman  
Mr. Ronnie C. Chan  
Dr. Wendy L. Gramm  
Dr. John Mendelsohn  
Mr. Paulo V. Ferraz Pereira  
Lord John Wakeham

**Agenda**  
**Meeting of the Audit and Compliance**  
**Committee of the**  
**Board of Directors**  
**Enron Corp.**

**August 13, 2001**  
**2:30 p.m. (C.D.T.)**  
**50<sup>th</sup> Floor Boardroom**  
**Enron Corp.**  
**Houston, Texas**

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3. Independent auditor communications regarding independence – Mr. Duncan, Andersen LLP.
4. Review and update on accounting for goodwill – Mr. Causey.
5. Credit and Market Risk update – Mr. Buy.
6. Other business, including executive sessions as deemed necessary – Dr. Jaedicke.
7. Adjourn to the joint session of the Audit and Compliance Committee and the Finance Committee.

EC004397207

# Audit and Compliance Committee Calendar of 2001 Activities

Scheduled Meetings					
	February	May	August	October	December
<b>I. Audit Committee Composition and Meetings</b>					
• Assess independence and financial literacy of audit committee, submit written affirmation to NYSE		X			
• Review charter (publish in proxy every 3 years)	X				
• Audit Committee Chair to approve meeting agenda	X	X	X	X	X
• Executive session with auditors, internal audit, management, committee	X	*	*	*	*
• Maintain minutes and report to Board	X	X	X	X	X
<b>II. Audit Committee Responsibilities and Duties</b>					
• Recommend appointment of auditors	X				
• Approve audit fees		X			
• Discuss auditor independence, obtain written statement of all relationships	X		X		
• Review plans for financial statement audit		X			
• Review annual financial statements prior to release- discuss with mgmt, auditors	X				
• Discuss quality of accounting principles-approve major changes	X	*	*	*	*
• Review adequacy of financial and EDP internal controls					X
• Review internal control plan	X				
• Discuss results of year-end audit and other matters required by SAS 61	X				
• Prepare report to shareholders to be included in the annual proxy	X				
• Review quarterly results and findings prior to filing	X	X	X	X	
• Review policies and practices for management's communications with analysts	X				
• Review/Approve for recommendation to the Board policies and procedures regarding compliance with laws and significant policy				X	
• Review credit and market risk with RAC	X	X	X	X	X
• Review legal matters with general counsel	X	*	*	*	*
• Conduct special investigations, studies or tests	*	*	*	*	*
• Review director and officer use of aircraft	X				

X = Recommended Timing  
\* = As Needed

EC004397208

EC004397209

**DRAFT**

**MINUTES  
MEETING OF THE AUDIT AND COMPLIANCE COMMITTEE  
OF THE BOARD OF DIRECTORS  
ENRON CORP.  
APRIL 30, 2001**

Minutes of a meeting of the Audit and Compliance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), noticed to begin at 3:00 p.m., C.D.T., but actually begun at 3:20 p.m., C.D.T., on April 30, 2001 at the Enron Building, Houston, Texas.

All of the Committee members were present as follows:

Dr. Robert K. Jaedicke, Chairman  
Mr. Ronnie C. Chan  
Dr. Wendy L. Gramm  
Dr. John Mendelsohn  
Mr. Paulo V. Ferraz Pereira  
Lord John Wakeham

Directors Norman P. Blake, Jr., John H. Duncan, Kenneth L. Lay, and Jeffrey K. Skilling, Messrs. John E. Berggren, Robert H. Butts, Richard B. Buy, Richard A. Causey, James V. Derrick, Jr., Shawn Kilchrist, Theodore R. Murphy, and D. Andrew Parsons, and Mesdames L. Mechelle Atwood-Minter, Misty A. Barrett, Rebecca C. Carter, Vicky A. Gregorcyk, Lisa K. Sutton, and Teresa L. Wheeler, all of the Company or affiliates thereof, Messrs. Thomas H. Bauer, David B. Duncan, and D. Stephen Goddard, of Arthur Andersen LLP ("AA"), and Mr. Richard N. Foster of McKinsey & Company, Inc. also attended the meeting.

The Chairman, Dr. Jaedicke, presided at the meeting, and the Secretary, Ms. Carter, recorded the proceedings.

Dr. Jaedicke called the meeting to order, noted that a draft of the minutes of the meeting of the Committee held on February 12, 2001 had been distributed to members of the Committee, and called for comments, additions, or corrections. There being none, upon motion duly made by Dr. Gramm, seconded by Dr. Mendelsohn, and carried, the minutes of the meeting of the Committee held on February 12, 2001 were approved as distributed.

EC004397210



Dr. Jaedicke called upon Messrs. Causey and David Duncan to begin the quarterly update on financial reporting and controls, a copy of which is filed with the records of the meeting. Mr. Duncan reviewed the ongoing high priority financial reporting risk areas and commented on specific risk areas identified for the 2001 audit, including the continued refinement of policies related to securitizations, syndications, and mark-to-market, credit and other trading related exposures, additional structured transaction activity, and the rationalization of assets and of business segments and related reporting. He then discussed AA's selected observations for the first quarter, including trading volumes and profits related to the Company's core commodities were significant, the realignment of activities between the wholesale and retail business units had impacted segment reporting, and Enron Broadband Service's earnings were impacted by the increased valuation of the content services venture. He then noted that AA had no proposed adjusting entries for the first quarter.

Mr. Causey then began an internal control update and stated that significant first quarter activities included the following: 1) progress toward resolving control issues identified in 2000, 2) significant advancement related to infrastructure development and design initiatives, 3) completion of the reviews of various remote offices, and 4) the formation of an incident log task force to evaluate root causes and implement preventive controls.

Mr. Causey then distributed a handout on the Company's balance sheet reserves, a copy of which is filed with the records of the meeting. He commented on the change in reserves since the end of the year and noted that the most significant changes related to additional reserves in connection with the situation in California. He stated that due to a change in the tariff structure in California, which occurred at the end of the first quarter, the Company took a significant reserve to offset the potential exposure. In addition, he stated that a reserve in place at the end of the year related to exposure regarding the Tennessee Valley Authority contract had been reversed due to a settlement during the first quarter of 2001.

Messrs. Causey and Duncan then presented a summary of fees paid to AA during 1999 and 2000 and the specific activities that AA had performed during those years. Mr. Duncan discussed the type of activities that were included in the category "expanded audit activities" and noted that they primarily related to accounting consultations regarding specific transactions. Mr. Causey then presented selected detail, by business unit, of expanded audit activities and process or risk management consulting services provided by AA and stated that the business units approved all services. He then called upon Messrs. Kilchrist and

Parsons to provide an update on the Company's assurance services ("AS") and information technology ("IT") compliance personnel.

Mr. Kilchrist stated that 13 professionals staffed the AS group and he reviewed their business and audit experience and certifications. Mr. Parsons then reviewed the IT group's IT consulting and audit experience, their areas of expertise, and their certifications. Mr. Kilchrist then presented the AS group's organization chart, discussed the reporting structure, and introduced Messrs. Berggren and Bromley and Mesdames Atwood-Minter, Barrett, Gregorcyk, Sutton, and Wheeler. Mr. Parsons then explained the IT group's role and interaction with the AS group.

Mr. Kilchrist then discussed the AS group's role at the Company and stated that it was responsible for overseeing controls work and monitoring corrective action plans, ensuring the adequacy of audit coverage, consulting on process and controls improvement initiatives, analyzing current practices and promoting alignment with best practices, and communicating the results and trends to management and the Committee. He then reviewed the group's interaction and coordination with AA and stated that the AS group was responsible for control and process assessment and improvement while AA was responsible for financial and control attestation. He stated that the group's recent accomplishments included: 1) establishing a structure and network of professionals to broaden the control focus, 2) heightening the awareness of control by creating Internal Control Committees within the business units, 3) performing a comprehensive risk assessment with AA, 4) establishing procedures to enhance coordination with AA, 5) implementing processes to resolve prior control issues, 6) providing control advisory services on business unit initiatives, 7) developing control standards for various processes, and 8) assisting the Company's legal and security departments with various special investigations.

Mr. Parsons then began a discussion of the recent accomplishments of the IT group including the following: 1) facilitating business continuity planning initiatives, 2) reengineering change management processes, 3) improving certain security administration procedures, 4) completing application architecture documentation related to trading and risk management, 5) establishing IT compliance audit procedures into the network implementation processes, 6) starting a remote access reengineering process, 7) working with AA on the 2001 IT audit planning, 8) initiating a global security administration, and 9) beginning penetration testing of the Enron Intelligent Network.

Mr. Kilchrist then distributed the proposed Enron Assurance Services Charter, a copy of which is filed with the records of the meeting. He discussed the

proposed Charter and stated that the group's mission was to improve the Company's operations by bringing an independent, systematic, and disciplined approach to evaluate and enhance the effectiveness of risk management, control, and governance processes. He then discussed the accountability and independence of the group and commented on its authority, responsibilities, and scope of duties. Following a discussion, upon motion duly made by Lord Wakeham, seconded by Dr. Mendelsohn, and carried, the Committee approved the Enron Assurance Services Charter as presented at the meeting.

Mr. Causey then began a discussion of the current status of "internal audit activities" and independence. He stated that recent conversations between AA and the Securities and Exchange Commission ("SEC") personnel confirmed that work performed pursuant to a control-related attest opinion should not impair independence. He further stated that a calculation of the acceptable level of qualifying internal audit activities which AA would perform at the Company would indicate that independence would not be an issue absent significant unplanned and discretionary work. Mr. Duncan joined him for a discussion of AA's work at the Company and the implications of maintaining AA's independence. Mr. Causey then presented charts depicting the total qualifying "internal audit activities" and the activities performed by Company personnel and AA. He stated that a substantial portion of the incremental control work performed by AA was performed pursuant to AA issuing an attest opinion and, therefore, would not be subject to certain maximum thresholds established by the SEC.

Dr. Jaedicke then called upon Mr. Buy to begin the Market Risk Update, a copy of which is filed with the records of the meeting. Mr. Buy discussed the backtesting performed on the Company's Value-at-Risk ("VAR") model and stated that per the Kupiec test the VAR model was acceptable. He reviewed the limit violations for the first quarter by portfolio and stated that a significant number of the violations related to the combined Enron Energy Service, LLC ("EES") /Wholesale group were caused by the lack of certain infrastructure in the EES business unit. He stated that the recent transfer of certain responsibilities from EES to the Wholesale group would alleviate this problem. He stated that the net open position limit violations for the coal group were caused by financial positions that were put in place to hedge a physical supply contract. He then reviewed the VAR, maturity/gap, and net open position limit violations for the first quarters of 2000 and 2001. He discussed the first quarter discretionary VAR allocations that had been made to the commodity groups and presented a summary of the changes to the Enron Corp. Risk Management Policy ("the Policy") that would be recommended to the Finance Committee. He noted that the changes related to permanent limit increases to permanent commodity groups within the

Policy, an interim limit extension for certain commodity groups currently under the Company's Interim Policy, and modifications to the reporting requirements.

Dr. Jaedicke called for an executive session with EAS and IT Compliance staff at 4:10 p.m., C.D.T. and Directors Blake, Chan, Duncan, Lay, Ferraz Pereira, and Skilling, Messrs. Bauer, Buy, Causey, Derrick, Duncan, Foster, Goddard, and Murphy, and Ms. Carter left the meeting. Minutes of the executive session were not recorded for the record.

There being no further business to come before the Committee, the meeting was adjourned at 4:20 p.m., C.D.T.

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Secretary

APPROVED:

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Chairman

K:\a Minutes\2001 Minutes\043001A.doc



# 2001 Financial Reporting

## 2nd Quarter Observations

first converted in India, California etc

- ✓ Wholesale group's continuing evaluation of EES portfolio positions results in numerous valuation changes and other "clean-up" activity
- ✓ Reserves for various Wholesale issues are substantial and continue to be monitored  
*Primarily California volatility around trading*
- ✓ Telecom industry difficulties raise potential for certain exposures in Broadband area  
*\$1B of PP+E*
- ✓ Judgemental GAAP application issue related to how to account for an EES business arrangement results in proposed audit adjustments - amounts deemed not material

Causey handed out reserve schedule

EC004397216



This report is intended solely for the information and use of the audit committee, board of directors and management of Enron Corp. and is not intended to be and should not be used by anyone other than these specified parties.



*Duncan*

Enron Corp.  
Reserves  
(\$ millions)

Handout

	6/30/01	3/31/01	12/31/00
<b>PGE</b>			
Sullivan plant reclamation reserve	20	20	20
Allowance for doubtful accounts	22	19	10

**North America**

Allowance for doubtful accounts - (3)	559	480	106
Prudency and credit	350	323	288
Valuation - gas and power	277	401	435
EES Specific Deal Reserves	248	-	-
PG&E Credit Claims - (4)	111	-	-
Other specific transactions	98	143	58
California political risk	47	47	47
Bammel monetization reserve	35	35	35
California tariff risk	-	319	-
TVA settlement	-	-	253
	1,725	1,748	1,222

Reevaluated monthly

Reserve used in second quarter  
Settled first quarter 2001

**Europe**

Prudency and credit	114	117	131
<b>Global Exploration and Production</b>			
Allowance for doubtful accounts	11	17	17

Reevaluated monthly

**South America**

Prudency and credit	-	-	33
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Reevaluated monthly

**CALME**

Dom Rep hotel litigation & A/R reserve	-	-	3
Madosa sale - deferred revenue	13	13	13

A/R written off following renegotiation of PPA  
Amortization of call option

**EIM**

Prudency and credit	14	-	-
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**Corporate**

Tax reserve related to years under audit (a)	285	285	285
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(a) Tax years under audit are 1996 forward.

① General related to entire portfolio

Recorded in 2nd Qtr.

- ② EES Risk Mgmt Activity moved to Wholesale
- ③ Primarily CTC
- ④ If accounts in our books

EC004397217

Case

# Internal Control Update

## Significant Current Activities

- ✓ 2001 plan on schedule (approximately 45% complete)
- ✓ Integration of retail and broadband portfolios into existing wholesale structure continues. Processes surrounding capture, valuation, settlements and monitoring of positions being evaluated
- ✓ New procurement and payment system implemented, which along with the outsourcing of accounts payable, has strengthened cash management processes
- ✓ Identified Enron Intelligent Network security issues being addressed and expected to be completed by November 2001
  - Primary focus has been one of network design and the rapid deployment of equipment
  - Formal security policies and procedures are under development that will address security configuration standards, intrusion detection, and employee responsibilities
- ✓ Construction of enterprise data center and business resumption facility to commence in August. Design and engineering audit completed
- Stringent e-mail retention standards have been adopted
- Risk Management Policy being updated to incorporate current "best practices", including an enterprise wide risk management framework for all of Enron's business units
- Continued monitoring of other initiatives which impact the control environment
  - Strategic cost cutting
  - Development of data repository to enhance management reporting
  - Process design and implementation efforts for emerging businesses

EC004397218



This report is intended solely for the information and use of the audit committee, board of directors and management of Enron Corp. and is not intended to be and should not be used by anyone other than these specified parties.

*Cause 1*



EC004397219

# Independence

## Observations & Conclusions

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- ✓ • We believe independence is not only the cornerstone of our profession, but the only sound basis for our continued success
- ✓ • We believe our policies surrounding independence are compliant with those currently required by the SEC, AICPA and applied by others in the profession and our Firm has appropriate processes to ensure that they are applied consistently on a worldwide basis
- ✓ • We believe our scope of practice (including our arrangement for integrated audit activities) is appropriate for a company as large and active as Enron and is within acceptable parameters under recent SEC independence guidelines
- ✓ • We confirm that we are independent accountants with respect to Enron, within the meaning of the Securities Acts administered by the Securities and Exchange Commission and the requirements of the Independence Standards Board

EC004397220



This report is intended solely for the information and use of the audit committee, board of directors and management of Enron Corp. and is not intended to be and should not be used by anyone other than these specified parties.



*Duncan*

# Independence

## General AA Safeguards

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### Establishing Professional Values

- Training
- Firm Policies on Independence
- Monitoring Employee Investments
- Required Annual Confirmation of Compliance with Firm Independence Policies

### Communication

- Formalized Audit Team Disagreement Resolution Process
- Local Consultation Requirements
- Worldwide Consultation Requirements

### Accountability

- Partner Rotation
- Concurring Partner Reviews
- Internal Inspection/ Monitoring Programs
- Analysis of Regulatory and Litigation Experience
- Internal Disciplinary Actions
- Partner and Staff Evaluation and Compensation Methods



This report is intended solely for the information and use of the audit committee, board of directors and management of Enron Corp. and is not intended to be and should not be used by anyone other than these specified parties.

# Independence Relationship Discussion

## General Category

- Client Employment

## Common Old Examples

- Auditors Hired by Client

## Common Considerations

- Occurs at Enron with some regularity. Seven assurance professionals hired over past year
- Well understood engagement policy that the individual receiving an employment offer immediately ceases all client work
- In all cases, work performed by an individual just preceding the acceptance of an employment offer is considered from an independence and professional skepticism standpoint
- Team and network approach to work has resulted in no instances where independence was thought to be impaired

- Family Relationships

- Auditor Family Members Employed by Client

- Participation on an attest engagement is prohibited by Firm policy if spouse, dependents or close relative is employed by Company in an important or audit-sensitive position
- Firm policy prohibits a manager level or above auditor from being located in an Andersen office where a spouse, dependent or close relative holds an important or audit-sensitive position with an attest client (policy evolving as recent SEC guidelines are interpreted and applied)
- No violations related to Enron



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EC004397222

# Independence Relationship Discussion

## Category

## Examples

## Considerations

### • Mutual Business Relationships

- Firm/Client Joint Ventures
- Firm personnel involvement in for-profit businesses, investments or transactions involving the Company or Company employees

- Firm policy prohibits any joint venture between the Firm and an SEC audit client (i.e. business-to-business)
- Firm policy prohibits all employees (audit, tax or consulting) from having any of the relationships mentioned at left with any attest client except as a normal customer in the ordinary course of business (i.e., individual-to-client individual or individual-to-client business)
- No known instances related to Enron

### • Non-Audit Services

- Accounting, tax and control advisory (various)
- Due diligence assistance (various transactions and contracts)
- Process design and implementation assistance (various)
- Data accumulation and compilation assistance (various)

- All services routinely performed for other sophisticated attest clients
- All new service projects go through a formal approval process where Firm independence guidelines are enforced
- Important that management has sufficient expertise to take responsibility for all management decisions made and that Firm does not assume the role of an employee or management
- Certain service requests have been refused to ensure guidelines appropriately met (e.g., remote location bookkeeping services; document preparation; etc.)



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EC004397223

# Independence Relationship Discussion

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## Category

- Financial

## Exclusions

- Direct Financial Interest (e.g., Stock Ownership)
- Fee Dependency

## Conclusions

- Personal investment in any attest client or with any client employee strictly prohibited by Firm policy
- No known instances related to Enron
- Andersen's unique worldwide income sharing model removes direct relationship between regional results and partner income
- Enron fees not material to annual worldwide fees of approximately \$9 billion
- Network decision making and cross-checking a matter of policy and continuously utilized at Enron:
  - Engagement Partners and Managers
  - Advisory Partners and Practice Underwriters
  - Centralized Firmwide Technical Team
  - Concurring Partner and Peer Reviews



This report is intended solely for the information and use of the audit committee, board of directors and management of Enron Corp. and is not intended to be and should not be used by anyone other than these specified parties.

EC004397224

**Agenda Item 4**

EC004397225

# New Accounting Standard for Goodwill



## *Goodwill*

✓ Effective January 1, 2002, goodwill will not be amortized but rather tested for impairment annually at the "reporting unit" level

✓ A "reporting unit" is:

(a) an operating segment or,

(b) one level below an operating segment (referred to as a component) if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. However, two or more components of an operating segment shall be aggregated and deemed a single reporting unit if the components have similar economic characteristics

✓ Goodwill should be tested for impairment using a two-step approach:

*DCF or Market Multiples - some discretion but must be consistent*

Step 1 – Compare the fair value of a reporting unit to its carrying amount. If the fair value of a reporting unit is less than its carrying amount, the second step must be performed

Step 2 – Compare the implied fair value of goodwill to its carrying amount. If the carrying amount exceeds its implied fair value, an impairment loss is recognized equal to that excess

## *Transition and Effective Date*

✓ Enron required to adopt January 1, 2002

✓ Any impairment loss recognized upon adoption will be recognized as a cumulative effect of a change in accounting principle

✓ Disclosure will be required in Form 10-Q, likely beginning with 3<sup>rd</sup> quarter filing (November 14, 2001)

EC004397226

*Causey*



# New Accounting Standard for Goodwill



## Summary of Consolidated Goodwill (excluding equity method investments)

(in millions)

Reporting Units	March 31, 2001 Goodwill
<b>Enron Transportation &amp; Distribution:</b>	
Portland General	\$ 1,418
<b>Wholesale:</b>	
Enron Europe (MG Metals)	349
Other	48
<b>Global Assets &amp; Services: <sup>(1)</sup></b>	
Elektro	617
Enron Global Power & Pipelines LLC	166
Other	91
<b>Enron Energy Services</b>	628
<b>Enron Broadband Services <sup>(1)</sup></b>	58
<b>Enron Wind</b>	188
<b>Totals</b>	<u><u>\$ 3,563</u></u>

- (1) Preliminary assessment indicates fair value of reporting unit could be less than carrying amount

EC004397227

*Causey*

# New Accounting Standard for Goodwill



## Summary of Goodwill Relating to Equity Method Investments

(in millions)

	March 31, 2001 Goodwill
Northern Plains	\$ 72
TGS	247
Ecoelectrica	167
Other	36
<b>Totals</b>	<b><u>\$ 522</u></b>

*No real issues*

EC004397228

3

*Casey*



# New Accounting Standard for Goodwill

## Summary of Unconsolidated Goodwill on Equity Method Investees' Books

(in millions)

	March 31, 2001 Goodwill
EOTT	\$ 3
Northern Border Partners, L.P.	22
Stadacona	141
SK Enron	140
Transredes	36
Promigas	1
Azurix <sup>(1)</sup>	924
Industrial Markets – Pulp & Paper (Fishtail)	114
<b>Totals</b>	<b>\$ 1,381</b>

*Primarily Wessex*

(1) Preliminary assessment indicates fair value of reporting unit could be less than carrying amount

EC004397229

*Consej*

**Agenda Item 5**

EC004397230

**Market Risk Update**

**Board of Directors Meeting**  
**Audit & Compliance Committee**  
**August 2001**

EC004397231



# Audit Committee

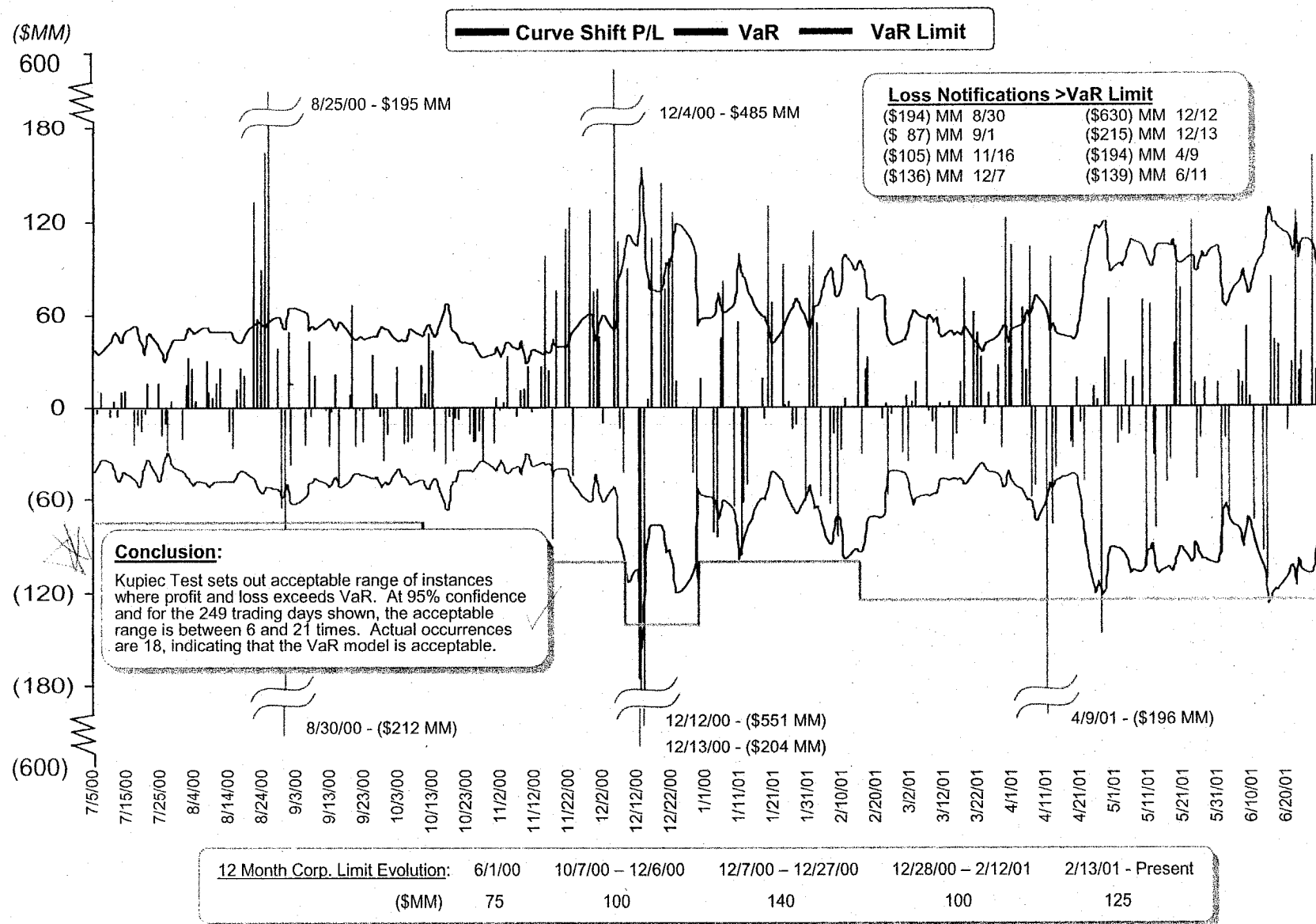
## Table of Contents

- ☐ . Backtesting of Enron Corp. Aggregate VaR
- ☐ Limit Violations
- ☐ Utilization of VaR Limits

EC004397232

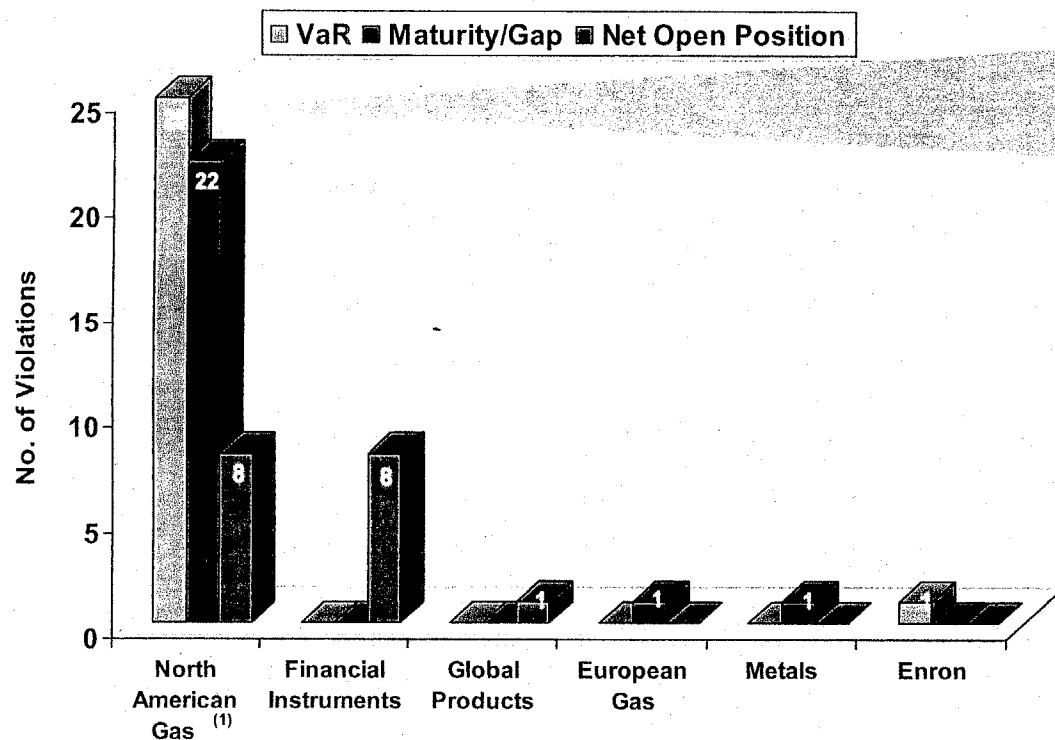
# Backtesting of Enron Corp. Aggregate VaR

## 12 Months Ended June 30, 2001

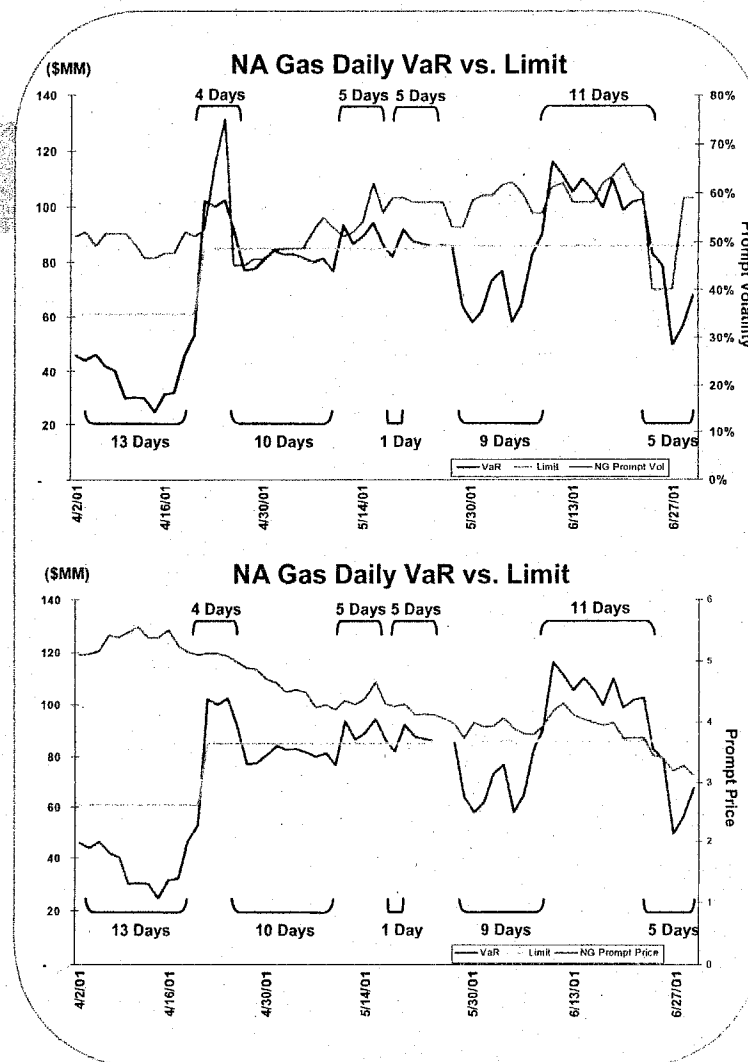


# Limit Violations

## Quarter Ended June 30, 2001

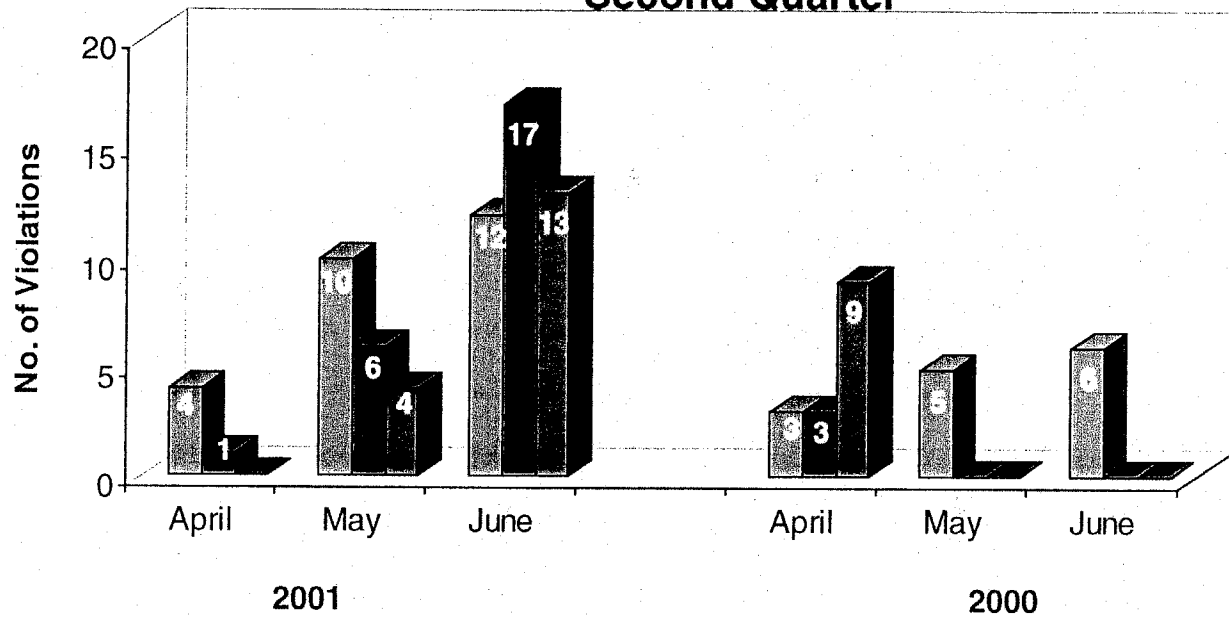


(1) The desk was maintaining a strong view that the natural gas prices would decline significantly due to an oversupply of gas. In attempts to maximize returns, the desk increased their positions and risk. On certain days, price and volatility moves, combined with EOL activity resulted in limit violations.

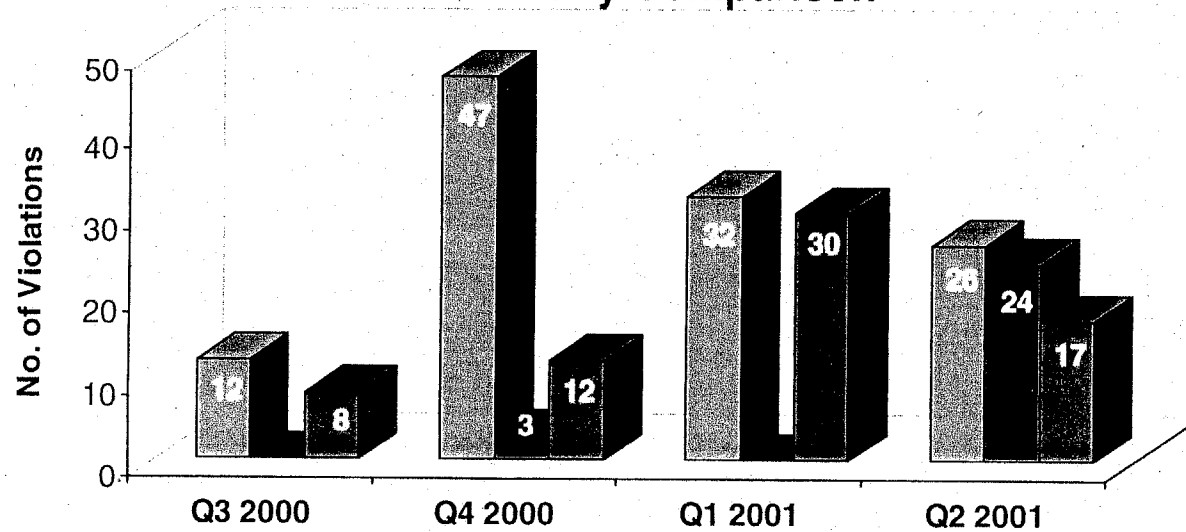




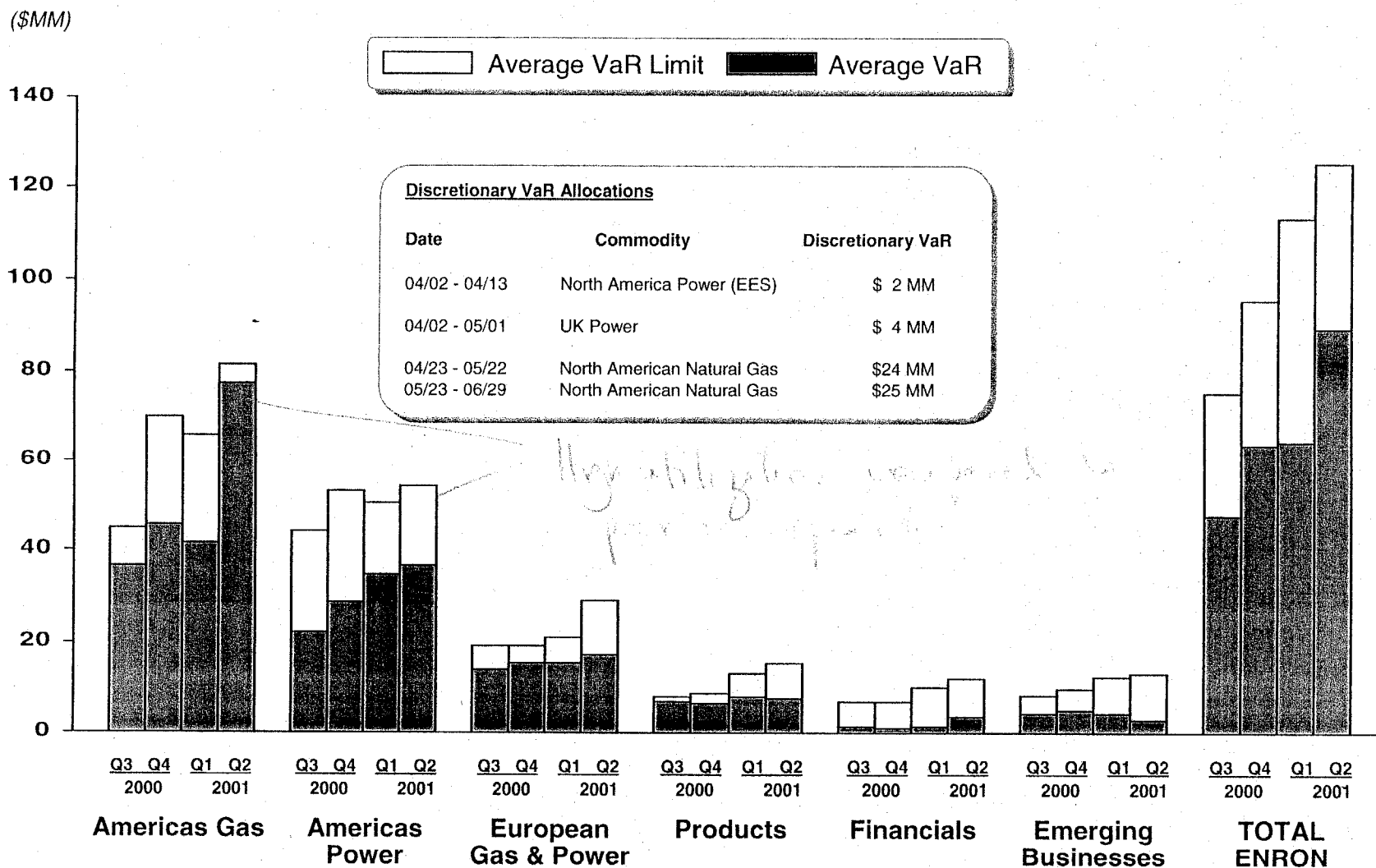
## Monthly Limit Violations Second Quarter



## Limit Violations Quarterly Comparison



# Utilization of VaR Limits Quarterly Comparison



Note: Commodities aggregated per recommended Concentration Limit categories